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July 30, 1993

BY OVERNIGHT MAIL

William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

Re: CC Docket No. 93-179

Dear Mr. Caton:

Enclosed for filing please find an original plus nine (9) copies of the Comments of Rochester Telephone Corporation in the above-docketed proceeding.

To acknowledge receipt, please affix an appropriate notation to the copy of this letter provided herewith for that purpose and return same to the undersigned in the enclosed self-addressed envelope.

Very truly yours,

Michael J. Shortley, III

cc: ITS, Inc.

(2621K)

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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AUG 02 1993

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In the Matter of  
Price Cap Regulation of  
Local Exchange Carriers  
Rate of Return Sharing  
And Lower Forumula Adjustment

CC Docket No. 93-179

COMMENTS OF ROCHESTER  
TELEPHONE CORPORATION

Rochester Telephone Corporation ("Rochester") submits these comments in response to the Commission's Notice<sup>1/</sup> initiating this proceeding. In the Notice, the Commission proposes to clarify its price cap rules for exchange carriers explicitly to incorporate "add-back" into the rules. Under "add-back," an exchange carrier that would be subject to a sharing obligation for one period -- under which its price cap indices would be reduced for the succeeding period to account for the sharing obligation -- would be required to add back the amount of the adjustment in calculating any potential sharing

<sup>1/</sup> Price Cap Regulation of Local Exchange Carriers, CC Dkt. 93-179, Notice of Proposed Rulemaking, FCC 93-325 (released July 6, 1993) ("Notice").

obligation based upon its results for the second period 2/ The

are lower than they otherwise would have been. Thus, the Commission's analysis that, absent "add-back," a double-counting of backstop adjustments could occur<sup>6/</sup> is incorrect. Without "add-back", an exchange carrier's sharing obligation would be determined by its actual performance in that period. "Add-back" simply imputes revenues into the second period that the affected exchange carrier would never actually realize. Thus, its sharing obligation in the subsequent period would be determined on the basis of something other than its actual performance in that period. Thus, the proposal to incorporate "add-back" is inconsistent with the price cap rules as adopted.

More importantly, the incorporation of "add-back" into the sharing and lower formula adjustment mechanisms is inconsistent with the incentive structure of price cap regulation. As the Commission recognizes:

~~By reducing the range of earnings~~

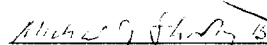


The Commission's own analysis succinctly describes why it should decline to adopt its "add-back" proposal.

Finally, the Commission's comprehensive review of its exchange carrier price cap plan is nearing commencement. In that proceeding, Rochester believes that exchange carriers will convince the Commission to sever the remaining link -- embodied in the sharing and lower formula adjustment mechanisms -- between an exchange carrier's prices and its earnings. The Commission should decline to adopt new modifications to its exchange carrier price cap rules that actually tighten that link.

For the foregoing reasons, the Commission should decline to adopt its "add-back" proposal.

Respectfully submitted,

  
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Michael J. Shortley, III

Attorney for Rochester  
Telephone Corporation

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July 30, 1993

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